

Agency Legislative Budget	Base Budget	PL Base	New	Total	PL Base	New	Total	Total
Budget Item	Fiscal 2002	Adjustment Fiscal 2004	Proposals Fiscal 2004	Leg. Budget Fiscal 2004	Adjustment Fiscal 2005	Proposals Fiscal 2005	Leg. Budget Fiscal 2005	Leg. Budget Fiscal 04-05
FTE	492.36	0.50	(6.60)	486.26	0.50	(6.60)	486.26	486.26
Personal Services	19,627,098	3,062,656	(509,697)	22,180,057	3,114,621	(63,745)	22,677,974	44,858,031
Operating Expenses	9,593,883	2,600,868	1,433,952	13,628,703	175,488	834,612	10,603,983	24,232,686
Equipment	783,169	(34,504)	56,000	804,665	(34,554)	0	748,615	1,553,280
Capital Outlay	454	0	0	454	0	0	454	908
Local Assistance	213,373	0	0	213,373	0	0	213,373	426,746
Grants	895,365	(3,190)	0	892,175	(3,270)	0	892,095	1,784,270
Benefits & Claims	500,000	500,000	0	1,000,000	500,000	0	1,000,000	2,000,000
Transfers	389,169	9,170	0	398,339	9,170	0	398,339	796,678
Debt Service	503,305	81,089	0	584,394	81,089	0	584,394	1,168,788
Total Costs	\$32,505,816	\$6,216,089	\$980,255	\$39,702,160	\$3,842,544	\$770,867	\$37,119,227	\$76,821,387
General Fund	16,205,128	2,167,912	(1,320,895)	17,052,145	2,198,906	(1,124,054)	17,279,980	34,332,125
State/Other Special	14,617,396	3,889,177	2,191,114	20,697,687	1,548,208	1,786,613	17,952,217	38,649,904
Federal Special	1,683,292	159,000	110,036	1,952,328	95,430	108,308	1,887,030	3,839,358
Total Funds	\$32,505,816	\$6,216,089	\$980,255	\$39,702,160	\$3,842,544	\$770,867	\$37,119,227	\$76,821,387

Agency Description

The Department of Natural Resources is tasked to: 1) manage the state trust land resource to produce revenues for the trust beneficiaries while considering environmental factors and protecting the future income-generating capacity of the land; 2) protect Montana's natural resources from wildfires through regulation and partnerships with federal, state, and local agencies; 3) promote stewardship of state water, soil, forest, and rangeland resources, and regulate forest practices to protect water quality; 4) provide administrative, legal, and technical assistance and financial grants to the conservation districts and provide natural resource conservation and development programs; 5) resolve water resource use conflicts, manage state water projects, investigate water use violations, ensure dam safety compliance, and provide water adjudication support to the Water Court; 6) provide administrative support to the Reserved Water Rights Compact Commission to negotiate the settlement of reserved water rights claims of Indian Tribes and federal agencies; and 7) provide administrative support to the Board of Oil and Gas Conservation to assist in conservation of oil and gas and prevention of resource waste through regulation of oil and gas exploration and production. The State Board of Land Commissioners, comprised of the Governor, State Auditor, Attorney General, Superintendent of Public Instruction, and Secretary of State, exercise the general authority, direction, and control over the care, management, and disposition of state lands under its administration. The director is the chief administrative officer of the board.

Summary of Legislative Action

Department of Natural Resources and Conservation	
Major Budget Highlights	
○	The general fund appropriations in Water Resources and Forestry Divisions were designated as biennial to provide agency flexibility in addressing fire funding issues
○	Payments to the Crow Tribe were increased to \$1.0 million per fiscal year through a \$0.5 million increase in each of fiscal 2004 and fiscal 2005
○	Funding to study the affects of coal bed methane water was doubled
○	The legislature approved \$2.9 million in funding for repairs on state owned dams
○	Funding was added to assist with NorthCentral, Dry Prairie, and Dry Red Water regional water systems
○	The Flathead Basin Commission was temporarily transferred to the Water Resources Division
○	Two RIT related funds are projected to have significant negative balances

The legislature approved present law changes in HB 2 adding .50 FTE in each year of the biennium and increasing base expenditures by \$10.1 million over the 2005 biennium. New proposals in HB 2 decreased FTE by 6.60 in fiscal 2004 and 6.60 in fiscal 2005. New proposals contributed to a net funding increase of \$1.8 million over the biennium, with the largest changes occurring from: 1) transfer of the Flathead Basin Commission to the department - \$0.3 million; 2) administrative costs associated with regional water systems - \$0.4 million; 3) costs associated with coal bed methane - \$0.7 million; and 4) funding for HB 13 - \$0.7 million. Major budgetary issues include the following:

- The legislature eliminated 3.00 FTE that were vacant during the legislative session and currently remain vacant
- Funding of nearly \$0.7 million was added for operations and 3.0 FTE for coal bed methane development and water studies
- The legislature approved funding of \$200,000 to capture historical oil and gas data
- The legislature increased payments for the Crow Tribe to \$2.0 million over the 2005 biennium
- \$66,000 general fund for the Rangeland Resource Program was eliminated and program activities are to cease until another funding source is secured
- The legislature approved funding of \$0.7 million for administrative costs associated with regional water systems
- Funding for the Sheridan County conservation district was made an on-going part of the department budget
- A number of fees associated with water rights will be increased upon changes in administrative rule. These revenues would be used in a corresponding funding switch to reduce general fund authority within the division
- The legislature eliminated funding from the Water Resource Education Program. The department was directed to stop all program activities until another funding source is secured
- Funding of \$2.3 million was approved to rebuild Bair, Nevada Creek, and other high-hazard dams
- Funding of \$400,000 was approved to provide increased pay to seasonal firefighters
- A portion of the State/County Cooperative Fire Protection Program was eliminated, resulting in a general fund savings of \$0.2 million with minimal impact on fire suppression activities
- General fund appropriations in the Water Resources and Forestry Divisions were designated as biennial in nature. This change should significantly improve the department's ability to manage cash flow issues when addressing wildfire suppression costs

Resource Indemnity Trust

The Montana Constitution (Article IX, Section 2) requires the existence of the Resource Indemnity Trust (RIT) and states, "The principal of the resource indemnity trust shall forever remain inviolate in an amount of one hundred million dollars (\$100,000,000), guaranteed by the state against loss or diversion." In February of 2002, the Governor certified that the balance of the RIT trust had exceeded the \$100 million threshold. Consequently, the trust no longer receives revenue. However, interest earnings are used as a funding source for several funds discussed below.

The following figures show four elements of RIT as approved by the legislature. The first element shows the RIT revenues and trust balance using the Revenue and Transportation Interim Committee (RTIC) revenue projections for fiscal years 2003, 2004, and 2005. As of 2002 fiscal year end, the RIT trust had a balance of approximately \$102.1 million.

Since the RIT reached the constitutionally mandated level of \$100 million, excess trust balance was available for transfer and appropriation. In the order of priority, in the 2003 biennium, the legislature transferred and appropriated: 1) \$1 million for a funding switch in DNRC; 2) \$300,000 for the purpose of weed eradication; 3) \$540,000 for the purpose of purchasing securities for water treatment at the former Zortman and Landusky mines; 4) \$120,000 for a Clark Fork River study; and 5) up to \$100,000 for conservation and irrigation district grants. After these transfers, the RIT trust is estimated to be just over \$100 million.

The second element shows the statutory allocations of resource indemnity and ground water assessment taxes (RIGWA) and the applicable portion of the oil and gas tax. The RIGWA tax and the applicable portion of oil and gas taxes are distributed to a number of natural resource accounts. The following describes the current law revenue sources of the main RIT funds, and is shown in the following figure.

Resource Indemnity Trust (RIT): Interest Earnings, and Related Expenditure Accounts 2005 Biennium Projections				
1				
RIT Revenues (RTIC estimates)	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005
Projected Beginning Balance FY 2003		\$102,065,653	\$100,044,935	\$100,044,935
Fund Balance Allocations/transfers				
DNRC Funding Switch with General Fund		(1,000,000)		
Weed Eradication		(300,000)		
Water Treatment (\$540K)		(540,000)		
Clark Fork River Study		(120,000)		
Subdivisions, Cons. Dist., Irrigation grants		(100,000)		
Total Deposits/Legislative Changes		(\$2,060,000)		
Net Change in Trust Balance		39,282		
RIT Trust Balance	\$102,065,653	\$100,044,935	\$100,044,935	\$100,044,935
2				
	Fiscal 2003	Fiscal 2004	Fiscal 2005	Biennium Total
RIGWA and Oil and Gas Tax (RTIC estimates)	\$1,480,000	\$30,906,226	\$30,655,566	\$61,561,792
RIGWA Tax	\$1,080,000	\$1,055,000	\$1,062,000	\$2,117,000
<u>Statutory Allocations -- RIGWA</u>				
Libby Clean-up Debt Service (HB 10)		\$430,630	\$430,630	861,260
Groundwater Assessment Account-direct (02289)	366,000	366,000	366,000	732,000
Reclamation & Development-50% of remainder (02458)	357,000	129,185	132,685	261,870
Natural Resource Worker Scholarship	0	129,185	20,000	149,185
Orphan Share Account- remainder of RIGWA (02472)	357,000	0	112,685	112,685
TOTAL RIGWA STATUTORY ALLOCATIONS	1,080,000	1,055,000	1,062,000	2,117,000
Applicable Oil and Gas Tax	\$400,000	\$29,851,226	\$29,593,566	\$59,444,792
<u>Applicable Portion of Oil and Gas (HB 748 and HB 584)</u>				
Coal Bed Methane Protection - 1.23 %	400,000	367,170	364,001	731,171
Reclamation & Development- (02458) 2.95 %	0	880,611	873,010	1,753,621
Orphan Share Account- (02472) 2.95 %	0	880,611	873,010	1,753,621
6 Mill Account for the University System - 2.65 %	0	791,057	784,229	1,575,287
General Fund - 90.22 %	0	26,931,776	26,699,315	53,631,091
TOTAL OIL and GAS STATUTORY ALLOCATIONS	400,000	29,851,226	29,593,566	59,444,792
TOTAL RIGWA & OIL AND GAS ALLOCATIONS	\$1,480,000	\$30,906,226	\$30,655,566	\$61,561,792
3				
	Fiscal 2003	Fiscal 2004	Fiscal 2005	Biennium Total
RIT Interest Earnings (RTIC estimates)	\$7,377,000	\$7,379,000	\$7,380,000	\$14,759,000
Priority Statutory Allocations of Interest				
Environmental Contingency Account (02107)**	0	(175,000)	0	(175,000)
Oil & Gas Prod. Damage Mitigation Account (02010)***	0	(50,000)	0	(50,000)
Water Storage Account (02216)	0	(500,000)	0	(500,000)
Groundwater Assessment Account-direct (02289) ****	(300,000)	(300,000)	(300,000)	(600,000)
MSU-Northern Statutory Appropriation (02272)	(240,000)	(240,000)	(240,000)	(480,000)
FWP -- Future Fisheries (02022)	(350,000)	(350,000)	(350,000)	(700,000)
Renewable Resource Grant & Loan Program (02272)	(2,000,000)	(2,000,000)	(2,000,000)	(4,000,000)
Reclamation & Development Grants (02458)	(1,200,000)	(1,200,000)	(1,200,000)	(2,400,000)
Total Allocations	(\$4,090,000)	(\$4,815,000)	(\$4,090,000)	(\$8,905,000)
Amount Available for Further Distribution	\$3,287,000	\$2,564,000	\$3,290,000	\$5,854,000

RIGWA - The state imposes a resource indemnity and ground water assessment (RIGWA) tax on the gross value of coal, as well as most minerals, excluding metals and oil and natural gas. Through fiscal 2003, the first \$366,000 of the RIGWA tax is deposited into the ground water assessment account. Of the remainder, 50 percent is deposited into the reclamation and development account (R&D) for the purpose of making grants to be used for mineral development reclamation

projects. All remaining funds are deposited into the orphan share account. The money in the orphan share account is available to the department by appropriation and must be used to reimburse remedial action costs and to pay costs incurred defending the orphan share. SB 322, passed during the 2001 legislative session, modified 15-38-106, MCA, and created a natural resource workers education scholarship program. Starting in fiscal 2004, an amount is deposited into an account for natural resource worker scholarships to bring the total in that program to \$150,000. Based upon the level of RIGWA revenue projections and the effects of HB 10 discussed below, it is unlikely that this scholarship program would receive the full \$150,000 distribution in fiscal 2004.

The following change affected the distribution of RIGWA:

- HB 10 provides an EPA funding match through the issuance of up to \$9.0 million in bonds (authorized under 75-10-623, MCA) that would be used to clean up the Libby and Troy areas. Debt service would come from the first \$430,630 per year from the RIGWA tax stream. Based upon Revenue and Transportation Interim Committee revenue projections, \$1.0 million will be generated from RIGWA. When the first \$430,630 of the RIGWA tax is used for debt service, the reclamation and development and orphan share accounts would have reduced projected ending fund balances.

Oil and gas taxes - A portion of oil and natural gas production taxes are distributed to the main RIT natural resource funds. 15-36-324 (9)(c), MCA, directs the first \$400,000 into the coal bed methane protection account. The remainder of the applicable portion of oil and gas proceeds is diverted to the general fund for fiscal 2003.

The following legislation changed the distribution of oil and gas taxes:

- HB 748 changes the methodology used to distribute oil and natural gas production taxes between state and local governments. Under prior law, local government received a portion of the oil and gas taxes with a requirement to return a portion to the general fund through the state 95 mill and 6 mill levies. With the passage of HB 748, the levy amounts are deposited to the general fund up front and counties receive a fixed distribution of the oil and natural gas production tax.
- In addition, the distribution of the oil and gas tax is changed. In fiscal 2003, the first \$0.4 million of the oil and gas tax is distributed to the coal bed methane protection fund. The remainder is distributed to the general fund. Statutory changes enacted under HB 748 distribute the oil and gas tax as follows:
 - a. 1.23 percent to the coal bed methane protection account
 - b. 2.95 percent to the reclamation and development account
 - c. 2.95 percent to the orphan share account
 - d. 2.65 percent to the 6-mill account for the university system
 - e. All remaining funds to the general fund
- HB 584 eliminates the termination date for the Controlled Allocation of Liability Act. Further, it eliminates the requirement that any money remaining in the orphan share fund after June 30, 2005, and after outstanding claims are paid, must be deposited to the general fund. This bill is coordinated with HB 748 allowing continued distributions to the orphan share account.

Metalliferous mines tax - 7 percent of this funding source is directed to the reclamation and development account

Trust Interest

The third element shows the amount of interest generated by the RIT and the amounts that are allocated by statute for specific purposes in fiscal 2003 and the 2005 biennium. 15-38-202, MCA, directs how interest from the RIT trust will be allocated. Driven by RTIC estimates, \$14.8 million of interest is allocated to a number of sources. The constitution does not restrict the spending of interest from the RIT. For the 2005 biennium, statute allocates \$8.9 million of the interest for eight purposes.

The following figure shows direct interest allocations from the RIT for the 2005 biennium.

Resource Indemnity Trust Direct Allocation of Interest 2005 Biennium		
Purpose	Source of Appropriation Authority	Amount
1 Environmental Contingency Account	Statutory	(\$175,000)
2 Oil & Gas Prod. Damage Mitigation Account	Statutory	(50,000)
3 Water Storage Account	HB 2	(500,000)
4 Groundwater Assessment Account	HB 2	(600,000)
5 MSU-Northern Statutory Appropriation	Statutory	(480,000)
6 Fish, Wildlife, and Parks -- Future Fisheries	HB 5	(700,000)
7 Renewable Resource Grant & Loan Program	HB 6	(4,000,000)
8 Reclamation & Development Grants	HB 7	(2,400,000)
Total Direct Allocation of Interest From RIT		(\$8,905,000)

Once the direct allocations are made, seven main accounts that receive RIT interest and other revenues are shown in the figure below. Any interest remaining is now allocated as follows for appropriation by the legislature in HB 2:

- 25.5 percent to the renewable resource account, which funds programs in the Judiciary, Department of Natural Resources and Conservation, State Library Commission, and MSU-Northern
- 45.0 percent to the reclamation and development account, which funds programs in the Department of Environmental Quality, Department of Natural Resources and Conservation, and the State Library Commission. This account also receives portions of the RIGWA and the applicable portion of oil and gas tax proceeds
- 22.0 percent to the hazardous waste/CERCLA account, which funds remediation activities in the Department of Environmental Quality
- 7.5 percent to the environmental quality protection fund, which funds remediation activities in the Department of Environmental Quality

Fund Balances

Of the seven tracked funds that derive income from the RIT related sources, two are projected to have a negative balance at the end of the 2005 biennium based upon legislative action. The significantly negative balance in the renewable resource account could be problematic during the interim.

The Office of Budget and Program planning has indicated that efforts such as fund switches with the reclamation and development account (to the extent possible) will be used to preserve the balance in the fund. Further, this fund is used for renewable resource grants and these projects will not all start at the same time. Thus, the delayed starting time of projects will also help maintain the ending fund balance.

Although the water storage account also appears to be over-appropriated, DNRC is the only user of these funds and spending will ultimately be limited by the amount of revenue over the biennium. As shown in the figure below, positive fund balances are projected for the other funds.

4

Estimated Ending Fund Balance 2005 Biennium

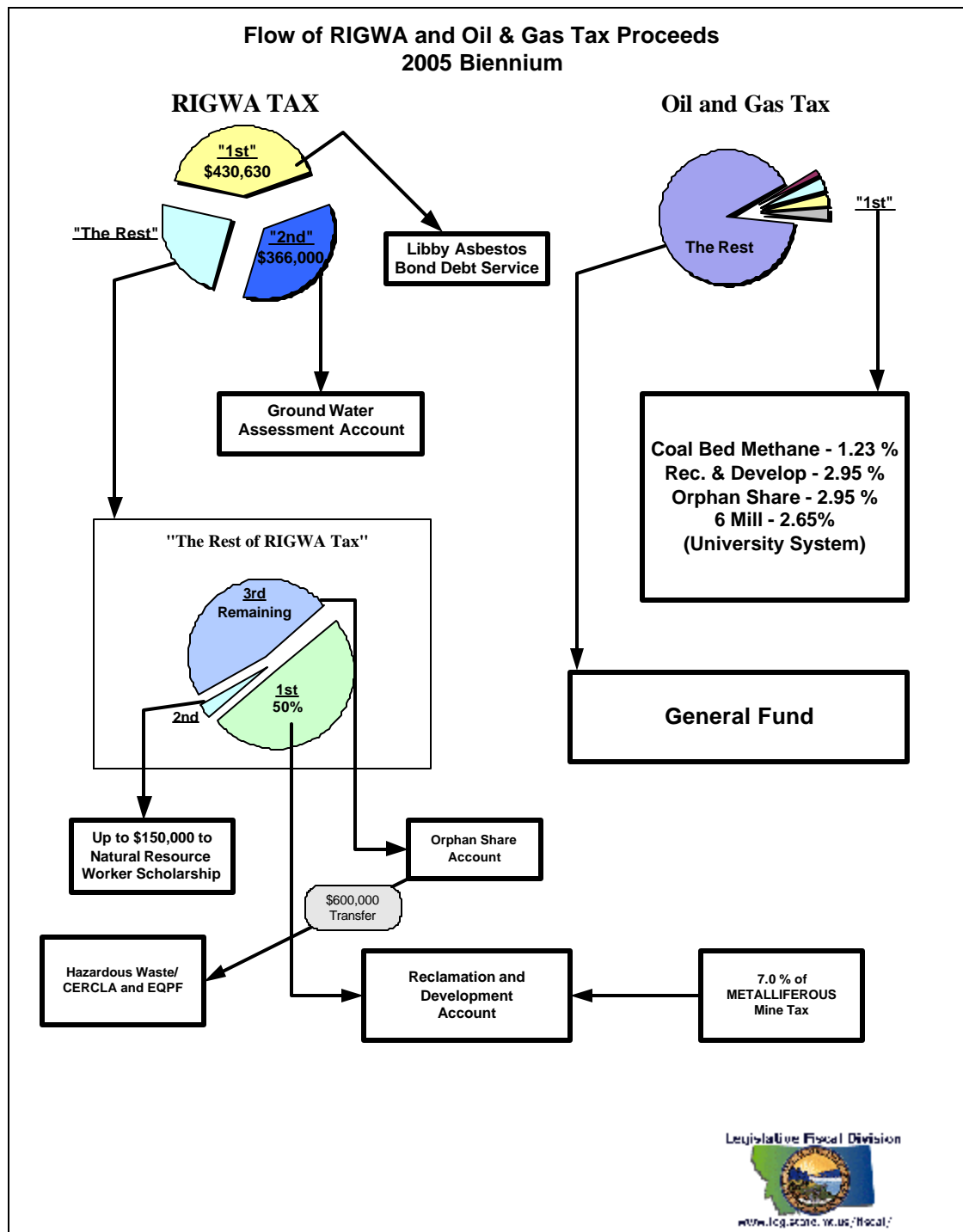
Related Expenditure Accounts (2005 biennium totals)	Renewable Resource (02272)	Reclamation & Development (02458)	Haz. Waste CERCLA (02070)	Environmental Quality Protect. (02162)	Groundwater Assessment (02289)****	Water Storage (02216)	Orphan Share (02472)
Further Distribution % of RIT Interest	25.5%	45%	22%	7.5%	0%	0%	0%
Projected Available Fund Balance Beginning FY2004	(\$134,072)	(\$610,868)	\$81,239	\$49,569	\$252,454	\$329,057	\$1,420,387
Revenues (RTIC, agency estimates)							
RIT Interest-direct	\$4,480,000	\$2,400,000			\$600,000	\$500,000	
RIT Interest-further allocation by above %	1,492,770	2,634,300	1,287,880	439,050			
RIGWA Proceeds		2,015,491			732,000		1,866,306
Metal Mines Tax (7%)		690,340					
STIP/Other Interest			18,000	14,000		34,000	
Cost Recoveries				1,450,000			
Transfers (SB 103)			600,000				(600,000)
Administrative Fees	55,000						
State-owned Project Revenue	-	-	-	-	-	173,000	-
Total Revenues	\$6,027,770	\$7,740,131	\$1,905,880	\$1,903,050	\$1,332,000	\$707,000	\$1,266,306
Executive Appropriations							
House Bills 6 and 7 Grants	\$4,000,000	\$2,400,000					
MSU-Northern (statutorily appropriated)	480,000						
UM-Bureau of Mines					\$1,332,000		
DNRC-Conservation and Resource Devel. Division	649,282	1,000,000					
DNRC-Water Resources Division	340,020					1,870,000	
DEQ-Central Management		72,527	37,172	1,705			
DEQ-Planning, Prevention & Assistance			\$322,013				
DEQ-Enforcement		9,463					
DEQ-Remediation			419,830	1,600,619			2,664,296
DEQ-Permitting & Compliance		3,002,434	1,036,377				
Judiciary-Water Court	1,444,788						
Library Commission-NRIS	0	367,412					
Library Commission-State Library Operations	415,110						
House Bill 13	<u>32,756</u>	<u>30,686</u>	<u>17,170</u>	<u>11,477</u>	<u>-</u>	<u>-</u>	<u>20,840</u>
Total Appropriations	\$7,361,956	\$6,882,522	\$1,832,562	\$1,613,801	\$1,332,000	\$1,870,000	\$2,685,136
Projected 2005 Biennium Ending Balance	<u>(\$1,468,258)</u>	<u>\$246,742</u>	<u>\$154,557</u>	<u>\$338,818</u>	<u>\$252,454</u>	<u>(\$833,943)</u>	<u>\$1,558</u>

** The governor must report on the expenditures from the environmental contingency account in the executive budget. Expenditures are statutorily appropriated.

*** Amounts are deposited to the oil & gas production damage mitigation account to bring the balance up to \$200,000 (82-11-161,MCA). All money in the account is statutorily appropriated.

**** Amounts are deposited to the groundwater assessment account to bring the balance up to \$666,000.

The figure below shows a graphical depiction of the impacts of the proposed changes:



Funding

The following figure summarizes funding for the agency, by program and source, as adopted by the legislature.

Total Agency Funding 2005 Biennium Budget					
Agency Program	General Fund	State Spec.	Fed Spec.	Grand Total	Total %
Centralized Services	\$ 3,284,517	\$ 814,400	\$ 193,300	\$ 4,292,217	5.6%
Oil & Gas Conservation Div.	-	3,366,906	-	3,366,906	4.4%
Conservation/Resource Dev Div	4,584,801	3,869,578	419,371	8,873,750	11.6%
Water Resources Division	12,006,758	5,910,856	279,358	18,196,972	23.7%
Reserved Water Rights Comp Com	1,445,506	-	-	1,445,506	1.9%
Forestry	13,010,543	24,688,164	2,947,329	40,646,036	52.9%
Grand Total	\$ 34,332,125	\$ 38,649,904	\$ 3,839,358	\$ 76,821,387	100.0%

Other Legislation

House Bill 3 - HB 3 appropriates \$1.3 million general fund for actual and anticipated wildfire suppression costs in fiscal 2003. See the following discussion on HB 16 and the "Supplemental Appropriation Description" section for additional fire supplemental appropriation information.

House Bill 4 - HB 4 appropriates money that would usually be appropriated by the budget amendment process for fiscal 2003. This bill appropriates \$0.9 million for fiscal 2003 to the department for various projects including hazardous fuel reduction, conservation reserve programs, and trail system grants.

House Bill 6 - HB 6 appropriates \$4.0 million of RIT interest to the department for renewable resource grants. Of the total, \$220,932 is to be used by the department for emergency projects and \$100,000 is to be used for project planning grants. The remainder is available to state agencies, political subdivisions, and local government entities. See the Long Range Planning section in Volume 4 for a list of specific projects funded in HB 6.

House Bill 7 - HB 7 appropriates \$2.4 million of RIT interest to the Department of Natural Resources and Conservation for reclamation and development projects. For a further discussion, see the Long-Range Planning section in Volume 4 for a list of specific projects funded in HB 7.

House Bill 8 - HB 8 provides the authority for the loan portion of the renewable resource grant and loan program. The issuance of \$11,729,290 in coal severance tax bonds was approved by the legislature and the proceeds appropriated to the department for: 1) loans for new and re-authorized existing projects - \$10,662,991; and 2) establishment of a reserve for the bonds - \$1,066,299. See the Long Range Planning section in Volume 4 for a list of specific projects funded in HB 8.

House Bill 11 - HB 11 appropriates \$3,865,333 of interest earnings from the treasure state endowment regional water system special revenue account to finance the state's share of regional water system projects in North Central Montana and in Northeastern Montana.

House Bill 16 - HB 16 appropriates \$6.6 million general fund for wildfire suppression costs. Of this amount, \$0.7 million was spent on wildfire expenditures in fiscal 2003 that were not included in HB 3 and \$2.0 million was used to replace funding in the Water Resources Division utilized to pay for suppression costs in fiscal 2003.

House Bill 152 - HB 152 revises the statutory appropriation of funds received from the federal government for emergency or disaster services and increases the amount of the Governor's emergency fund from \$12 million to \$16 million.

House Bill 176 - HB 176 allows the treasure state endowment special revenue account to be used to fund administrative costs associated with regional water systems. HB 2 includes appropriations totaling \$690,023 to implement this bill.

House Bill 223 - HB 223 creates a state land bank that will allow the department to improve the portfolio of state trust lands by strategically selling parcels of land with a lower income potential, banking the proceeds, and purchasing parcels with higher income potential. The legislature appropriated \$153,600 to fund operating costs to implement this bill.

House Bill 287 - HB 287 requires a person who purposely ignites a fire without a permit to reimburse the entity responsible for any fire suppression activities resulting from the illegal fire.

House Bill 537 - HB 537 requires the Department of Natural Resources and Conservation to commission a new study to recalculate the annual sustainable yield on forested state lands. Until the study is complete, the annual timber sale target is set at 50 million board feet. The legislature appropriated \$40,000 to the department to fund this study.

Senate Bill 130 - SB 130 gives the Department of Fish, Wildlife and Parks and the Department of Natural Resources and Conservation authority to enter into an agreement to compensate state trust land beneficiaries for the use and impacts associated with hunting, fishing, and trapping on legally accessible state trust lands. If an agreement is reached between the two departments, hunters, anglers, and trappers would no longer be required to purchase a license to access state trust lands for recreational purposes. Compensation to the state land trust would come from a \$2 increase in the price of a conservation license which must be purchased prior to hunting, fishing, or trapping. The legislature appropriated \$40,000 to the department to fund this study.

Senate Bill 409 - SB 409 encourages developing a plan to promote leasing of coal reserves in the Otter Creek area that the state acquired from the federal government in 2002. In conjunction with development of these reserves, the department will contract for an archaeological survey, coal resource, and leasehold market evaluation. The legislature appropriated \$300,000 in HB 2 for these purposes.

Senate Bill 446 - SB 446 temporarily transfers the Flathead Basin Commission from the Governor's office to the Department of Natural Resources and Conservation for administrative purposes. This transfer is temporary in nature and expires at the end of the 2005 biennium. There was no net impact in HB 2 associated with the transfer.

Agency Budget Comparison								
Budget Item	Base Budget Fiscal 2002	Executive Budget Fiscal 2004	Legislative Budget Fiscal 2004	Leg – Exec. Difference Fiscal 2004	Executive Budget Fiscal 2005	Legislative Budget Fiscal 2005	Leg – Exec. Difference Fiscal 2005	Biennium Difference Fiscal 04-05
FTE	492.36	488.26	486.26	(2.00)	488.26	486.26	(2.00)	
Personal Services	19,627,098	22,430,470	22,180,057	(250,413)	22,482,687	22,677,974	195,287	(55,126)
Operating Expenses	9,593,883	12,658,248	13,628,703	970,455	10,044,704	10,603,983	559,279	1,529,734
Equipment	783,169	809,665	804,665	(5,000)	748,615	748,615	0	(5,000)
Capital Outlay	454	454	454	0	454	454	0	0
Local Assistance	213,373	213,373	213,373	0	213,373	213,373	0	0
Grants	895,365	593,211	892,175	298,964	584,404	892,095	307,691	606,655
Benefits & Claims	500,000	1,000,000	1,000,000	0	1,000,000	1,000,000	0	0
Transfers	389,169	398,339	398,339	0	398,339	398,339	0	0
Debt Service	503,305	584,394	584,394	0	584,394	584,394	0	0
Total Costs	\$32,505,816	\$38,688,154	\$39,702,160	\$1,014,006	\$36,056,970	\$37,119,227	\$1,062,257	\$2,076,263
General Fund	16,205,128	17,852,487	17,052,145	(800,342)	17,893,868	17,279,980	(613,888)	(1,414,230)
State/Other Special	14,617,396	18,888,500	20,697,687	1,809,187	16,297,805	17,952,217	1,654,412	3,463,599
Federal Special	1,683,292	1,947,167	1,952,328	5,161	1,865,297	1,887,030	21,733	26,894
Total Funds	\$32,505,816	\$38,688,154	\$39,702,160	\$1,014,006	\$36,056,970	\$37,119,227	\$1,062,257	\$2,076,263

Executive Budget Comparison

Total funding for the department is \$2.1 million above the executive budget.

The legislature approved a general fund budget that is \$1.4 million less than the executive over the biennium through a number of funding switches, decisions to not accept executive proposals, and through agency proposed options. The following are differences in the general fund as proposed by the executive:

- The legislature did not approve executive proposals for an inmate fire crew, various operating adjustments, and a re-instatement of FTE removed through 2001 legislative action
- The legislature accepted agency proposals to eliminate an attorney, a resource specialist, and an administrative support position, resulting in an FTE level that is 3.00 FTE below the executive proposal. These were vacant positions and any additional workload that might arise will be spread among existing staff. The positions remain vacant
- A global reduction in personal services further reduced general fund by \$0.4 million
- The legislature approved a \$60,000 appropriation for water monitoring work by the Sheridan County Conservation District not in the executive budget, and eliminated funding for two programs within the department. The Rangeland Management Program encourages cooperation among private, state, and federal entities involved with rangeland management, and the Water Resource Education program provides educational services centered on Montana's water laws and provides guidance in securing financial and technical advice on local water management. Services provided through the Rangeland Management Program and Water Resources Education program could potentially be obtained from other sources. The legislature eliminated \$162,367 of general fund support for these programs and directed the department to suspend program activities until alternative sources of funding could be secured
- HB 13 added \$0.3 million general fund over the 2005 biennium
- The legislature added \$10,000 general fund that will be used to address water consumption issues associated with the Yellowstone River Compact

State special revenue is \$3.5 million higher than the executive recommendation. The following contributed to this increase:

- In an effort to reduce general fund expenditures, the legislature increased state special revenue by \$0.8 million through a series of funding switches
- The legislature did not approve a \$0.6 million reduction of coal tax proceeds to the conservation districts
- The legislature added \$0.7 million state special revenue authority for Northcentral, Dry Prairie, and Dry Red Water regional water systems
- The legislature added an additional \$0.2 million to study the effects of coal bed methane water
- Funding to implement HB 13 added \$0.4 million state special revenue over the 2005 biennium
- The legislature added \$0.9 million state special revenue authority to implement a number of bills including: 1) \$0.3 million in conjunction with a transfer of the Flathead Basin Commission to the department; 2) \$0.2 million to implement SB 223 which creates a state land bank; and \$0.3 million to implement SB 409 to conduct studies in conjunction with developing coal leases at Otter Creek

With the exception of HB 13, which increased federal authority by \$26,894 over the biennium, the legislature did not change the level of federal funding from the executive proposal.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	41.00	0.00	(4.00)	37.00	0.00	(4.00)	37.00	37.00
Personal Services	1,644,545	338,665	(406,447)	1,576,763	339,354	(377,571)	1,606,328	3,183,091
Operating Expenses	586,180	(2,646)	18,300	601,834	(79,402)	0	506,778	1,108,612
Equipment	0	0	0	0	0	0	0	0
Debt Service	257	0	0	257	0	0	257	514
Total Costs	\$2,230,982	\$336,019	(\$388,147)	\$2,178,854	\$259,952	(\$377,571)	\$2,113,363	\$4,292,217
General Fund	1,700,915	358,886	(406,447)	1,653,354	307,819	(377,571)	1,631,163	3,284,517
State/Other Special	425,067	(17,867)	0	407,200	(17,867)	0	407,200	814,400
Federal Special	105,000	(5,000)	18,300	118,300	(30,000)	0	75,000	193,300
Total Funds	\$2,230,982	\$336,019	(\$388,147)	\$2,178,854	\$259,952	(\$377,571)	\$2,113,363	\$4,292,217

Program Description

The Centralized Services Division provides managerial and administrative support services to the department through: 1) the Director's Office, which includes the director, legal staff, and public information; and 2) support services, which manages all financial activities, coordinates information systems, produces publications and graphic materials, and performs general administrative support services. Support services include fiscal affairs, data processing, personnel, legal, reception, and mail. Responsibilities include trust revenue collection and distribution and maintenance of ownership records for trust and non-trust state-owned land.

Program Narrative

Centralized Services Division Major Program Highlights	
<ul style="list-style-type: none"> ○ The legislature eliminated 4.00 vacant FTE including an attorney, a deputy director, a receptionist, and an information specialist ○ Funding was approved to re-wire the USF&G building that currently houses the department headquarters ○ Increases are primarily due to statewide present law adjustments ○ Personal services reduction is applied to this program and can be allocated to other divisions 	

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium.

Program Funding Table						
Centralized Services						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
01100 General Fund	\$ 1,700,915	76.2%	\$ 1,653,354	75.9%	\$ 1,631,163	77.2%
02031 Forest Resources - Nursery	-	-	5,000	0.2%	5,000	0.2%
02039 Forestry-Fire Protection Taxes	42,772	1.9%	43,000	2.0%	43,000	2.0%
02052 Rangeland Improvement Loans	19,300	0.9%	15,000	0.7%	15,000	0.7%
02145 Broadwater O & M	8,600	0.4%	9,000	0.4%	9,000	0.4%
02280 Forest Resources-Timber Sales	71,940	3.2%	75,000	3.4%	75,000	3.5%
02340 Coal Sev. Tax Shared Ssr	5,300	0.2%	5,000	0.2%	5,000	0.2%
02430 Water Right Appropriation	26,000	1.2%	27,000	1.2%	27,000	1.3%
02432 Oil & Gas Era	62,500	2.8%	63,000	2.9%	63,000	3.0%
02449 Forest Resources-Forest Improv	28,779	1.3%	29,000	1.3%	29,000	1.4%
02450 State Lands Res Dev	80,000	3.6%	56,200	2.6%	56,200	2.7%
02825 Water Well Contractors	5,300	0.2%	5,000	0.2%	5,000	0.2%
02938 Trust Fund Revenues	74,576	3.3%	75,000	3.4%	75,000	3.5%
03255 Csd Federal Indirect	105,000	4.7%	118,300	5.4%	75,000	3.5%
Grand Total	\$ 2,230,982	100.0%	\$ 2,178,854	100.0%	\$ 2,113,363	100.0%

The Centralized Services program is funded primarily with general fund (76.5 percent), a variety of resource development funds (19.8 percent), coal severance taxes (0.2 percent), and federal indirect grant reimbursements (3.5 percent). To secure funding, the department charges an overhead rate to other divisions to recover costs. The rate varies between 1 and 3 percent depending upon the kinds and amount of managerial, contract, payroll, accounts payable, and other services that are provided to divisions. The funding will be used primarily for personal services and related operations costs associated with performing services for other divisions within the department.

Present Law Adjustments									
Fiscal 2004					Fiscal 2005				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				421,300					422,016
Vacancy Savings				(82,635)					(82,662)
Inflation/Deflation				8,466					8,816
Fixed Costs				33,722					(54,304)
Total Statewide Present Law Adjustments				\$380,853					\$293,866
DP 5 - Centralized Services Operating Adjustment									
0.00	(21,034)	(23,800)	0	(44,834)	0.00	(10,114)	(23,800)	0	(33,914)
Total Other Present Law Adjustments									
0.00	(\$21,034)	(\$23,800)	\$0	(\$44,834)	0.00	(\$10,114)	(\$23,800)	\$0	(\$33,914)
Grand Total All Present Law Adjustments				\$336,019					\$259,952

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 5 - Centralized Services Operating Adjustment - The legislature approved a request for an operating adjustment for rent. The DNRC office is located in a non-state building and rent is not shown as a fixed cost within Department of Administration schedules. A contractual agreement through fiscal year 2005 for the USF&G building in Helena stipulates a rate increase. In addition, reductions were taken for a separation allowance, costs for the trust land management system, and parking. \$37,930 was deducted for a one time only allowance, \$23,800 was deducted for cost savings involved in moving the database from a mainframe to a desktop platform, and \$1,000 was deducted for parking downtown.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 22 - Re-wire USF&G Building										
21	0.00	0	0	18,300	18,300	0.00	0	0	0	0
DP 201 - Eliminate 1.00 FTE Attorney										
21	(1.00)	(71,153)	0	0	(71,153)	(1.00)	(70,992)	0	0	(70,992)
DP 655 - Personal Services Reduction										
21	0.00	(209,190)	0	0	(209,190)	0.00	(209,190)	0	0	(209,190)
DP 6800 - HB 13 - Pay Plan										
21	0.00	8,581	0	0	8,581	0.00	37,011	0	0	37,011
DP 7020 - Reduction to Meet Target										
21	(3.00)	(134,685)	0	0	(134,685)	(3.00)	(134,400)	0	0	(134,400)
Total	(4.00)	(\$406,447)	\$0	\$18,300	(\$388,147)	(4.00)	(\$377,571)	\$0	\$0	(\$377,571)

New Proposals

DP 22 - Re-wire USF&G Building - The legislature approved a one-time request for restricted authority to complete a re-wiring project at DNRC headquarters located in the USF&G building in Helena. The basement of the USF&G building houses the Reserved Water Rights Compact Commission, the Conservation and Resource Development Division, the Oil and Gas Division, and the Centralized Services Division Information Technology Bureau. Nearly all the data network wiring in the basement is "Category 3" wiring that is relatively slow for routine data transmission and is incapable of high-speed transmission. Replacing the Category 3 wiring in the basement of the USF&G building would allow headquarters staff to move to high-speed data transmission. The cost to rewire the 60 network wall jacks will cost \$18,300.

DP 201 - Eliminate 1.00 FTE Attorney - The legislature approved an elimination of a 1.00 FTE attorney position. Legal duties will be spread among other legal staff members.

DP 655 - Personal Services Reduction - The legislature reduced general fund across all agencies based on a reduction of 200 FTE. This reduction equals 1.2 percent of total general fund for this agency.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund the pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded.

DP 7020 - Reduction to Meet Target - The legislature approved a request to eliminate 3.00 FTE and associated funding. The positions, a deputy director, a receptionist, and an information support technician, are all currently vacant.

Language

The legislature approved the following language in HB 2:

"Item [Centralized Services] includes a reduction in general fund money of \$209,190 in fiscal year 2004 and \$209,190 in fiscal year 2005 for the statewide FTE reduction. The agency may allocate this reduction in funding among programs when developing 2005 operating plans."

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	17.50	0.00	3.00	20.50	0.00	3.00	20.50	20.50
Personal Services	723,801	97,760	133,376	954,937	118,051	153,921	995,773	1,950,710
Operating Expenses	280,240	66,634	504,290	851,164	68,502	110,290	459,032	1,310,196
Equipment	22,314	2,686	56,000	81,000	2,686	0	25,000	106,000
Total Costs	\$1,026,355	\$167,080	\$693,666	\$1,887,101	\$189,239	\$264,211	\$1,479,805	\$3,366,906
State/Other Special	922,411	271,024	693,666	1,887,101	293,183	264,211	1,479,805	3,366,906
Federal Special	103,944	(103,944)	0	0	(103,944)	0	0	0
Total Funds	\$1,026,355	\$167,080	\$693,666	\$1,887,101	\$189,239	\$264,211	\$1,479,805	\$3,366,906

Program Description

The Oil and Gas Conservation Division administers the Montana oil and gas conservation laws to promote conservation and prevent waste in the recovery of these resources through regulation of exploration and production of oil and gas. The division: 1) issues drilling permits; 2) classifies wells; 3) establishes well spacing units and pooling orders; 4) inspects drilling, production, and seismic operations; 5) investigates complaints; 6) does engineering studies; 7) determines incremental production for enhanced recovery and horizontal wells to implement the tax incentive program for those projects; 8) operates the underground injection control program; 9) plugs orphan wells; and 10) collects and maintains complete well data and production information.

Program Narrative

Oil and Gas Division Major Program Highlights	
<ul style="list-style-type: none"> ○ The legislature added funding for 3.00 FTE and associated operations that will be used for projects related to coal bed methane ○ One-time funding was approved to replace the heating, ventilation, and air conditioning system in the Billings office ○ The legislature approved funding to acquire and maintain historical oil and gas data, well logs, and field information. This data will be placed into electronically retrievable formats 	

Funding

The following table shows program funding, by source, for the base year and the 2005 biennium.

Program Funding Table Oil & Gas Conservation Div.						
Program Funding	Base Fiscal 2002	% of Base Fiscal 2002	Budget Fiscal 2004	% of Budget Fiscal 2004	Budget Fiscal 2005	% of Budget Fiscal 2005
02432 Oil & Gas Era	\$ 922,411	89.9%	\$ 1,887,101	100.0%	\$ 1,479,805	100.0%
03356 Oil & Gas Federal	103,944	10.1%	-	-	-	-
Grand Total	<u>\$ 1,026,355</u>	<u>100.0%</u>	<u>\$ 1,887,101</u>	<u>100.0%</u>	<u>\$ 1,479,805</u>	<u>100.0%</u>

The state special revenue that funds this program comes from oil and gas well taxes and class II injection well annual operating fees. By statute (15-36-324, MCA), certain percentages of the oil production taxes and natural gas taxes are deposited to the account for the board's use. Under 82-11-131, MCA, the board can set the privilege and license tax up to

3/10 of 1 percent of the market value of each barrel of crude petroleum produced and of each 10,000 cubic feet of natural gas produced to comply with 15-36-324, MCA. Section 82-11-137, MCA, provides for a maximum \$300 annual operating fee for each class II injection well. The Board of Oil and Gas Conservation set the fee at \$200. State special revenue provides 100 percent of the funding. Because the amount of the federal EPA grant for the Underground Injection Control Program is unknown when the budget is developed, language approved by the legislature will allow the department to decrease the amount of state special revenue authority and increase federal special revenue authority when the amount of the grant becomes known.

Present Law Adjustments											
-----Fiscal 2004-----						-----Fiscal 2005-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services					106,804					111,396	
Vacancy Savings					(33,225)					(33,408)	
Inflation/Deflation					2,368					3,139	
Fixed Costs					1,947					3,669	
Total Statewide Present Law Adjustments					\$77,894						\$84,796
DP 3 - Oil & Gas Operating Adjustment	0.00	0	89,186	0	89,186	0.00	0	104,443	0	104,443	
Total Other Present Law Adjustments											
	0.00	\$0	\$89,186	\$0	\$89,186	0.00	\$0	\$104,443	\$0	\$104,443	
Grand Total All Present Law Adjustments					\$167,080						\$189,239

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 3 - Oil & Gas Operating Adjustment - The legislature approved a request for personal services increases including: 1) board member per diem; 2) exempt salary and associated benefits increases; and 3) overtime. Operating expense increases include: 1) funding to annualize base year expenditures for four on-going contracts (legal services, database consultants and janitorial for Billings and Helena offices); 2) funding for increased rent costs for the Billings and Shelby offices; and 3) funding for heating system repairs. Additional authority was added to purchase one new field inspector truck each year of the biennium.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 8 - Coal Bed Methane FTE										
22	3.00	0	162,296	0	162,296	3.00	0	137,059	0	137,059
DP 23 - Heating System Replacement										
22	0.00	0	25,000	0	25,000	0.00	0	0	0	0
DP 51 - Coal Bed Methane Water Study										
22	0.00	0	400,000	0	400,000	0.00	0	0	0	0
DP 52 - Historical Data Acquisition Project										
22	0.00	0	100,000	0	100,000	0.00	0	100,000	0	100,000
DP 6800 - HB 13 - Pay Plan										
22	0.00	0	6,370	0	6,370	0.00	0	27,152	0	27,152
Total	3.00	\$0	\$693,666	\$0	\$693,666	3.00	\$0	\$264,211	\$0	\$264,211

New Proposals

DP 8 - Coal Bed Methane FTE - The legislature approved a request to add 3.00 FTE and related authority for operations expenses to address workload increases associated with increased coal bed methane activity. With this funding, a 1.00 FTE environmental coordinator was added to do environmental assessments on drilling permits. In addition, 2.00 FTE field inspectors were added and assigned to both coal bed methane and general regulatory activities. The equipment portion of the request will be used for a new field inspector truck.

DP 23 - Heating System Replacement - The legislature approved a one-time-only request for authority to replace the heating, ventilation, and air conditioning system in the Billings office.

DP 51 - Coal Bed Methane Water Study - The legislature approved a request for a one-time, restricted, biennial appropriation to be used to study the potential effects of long-term disposal of produced coal bed methane (cbm) water by infiltration ponds and the design criteria for construction, monitoring, and operation of such impoundments permitted by the Board of Oil & Gas Conservation. The project will use the services of an environmental/engineering consultant to develop a project plan, construct monitoring wells, analyze data, and assist the board in developing rules and regulations for the construction and operation of infiltration ponds.

DP 52 - Historical Data Acquisition Project - The legislature approved a request for authority to acquire and maintain historical oil and gas data, well logs, and field information and place this data into electronically retrievable formats. The department will utilize contractors and purchase imaging hardware/software to retrieve, image, enter historical data, and store it electronically. After pre-1990 data is complete, existing staff and temporary employees would be used to maintain the data.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund the pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded.

Language

The legislature approved the following language to be included in HB 2:

"The department is authorized to decrease state special revenue money in the underground injection control program and increase federal special revenue money by a like amount when the amount of federal EPA funds available for the program becomes known. Any federal special revenue is to be spent before state special revenue."

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	22.00	0.50	(2.00)	20.50	0.50	(2.00)	20.50	20.50
Personal Services	1,035,489	130,895	(93,509)	1,072,875	133,834	(74,058)	1,095,265	2,168,140
Operating Expenses	822,712	68,897	355,918	1,247,527	(4,527)	324,364	1,142,549	2,390,076
Equipment	52,259	0	0	52,259	0	0	52,259	104,518
Capital Outlay	0	0	0	0	0	0	0	0
Local Assistance	213,373	0	0	213,373	0	0	213,373	426,746
Grants	895,365	(3,190)	0	892,175	(3,270)	0	892,095	1,784,270
Benefits & Claims	500,000	500,000	0	1,000,000	500,000	0	1,000,000	2,000,000
Transfers	0	0	0	0	0	0	0	0
Debt Service	0	0	0	0	0	0	0	0
Total Costs	\$3,519,198	\$696,602	\$262,409	\$4,478,209	\$626,037	\$250,306	\$4,395,541	\$8,873,750
General Fund	1,853,238	530,733	(100,323)	2,283,648	534,956	(87,041)	2,301,153	4,584,801
State/Other Special	1,488,252	143,020	362,732	1,994,004	49,975	337,347	1,875,574	3,869,578
Federal Special	177,708	22,849	0	200,557	41,106	0	218,814	419,371
Total Funds	\$3,519,198	\$696,602	\$262,409	\$4,478,209	\$626,037	\$250,306	\$4,395,541	\$8,873,750

Program Description

The Conservation and Resource Development Division provides technical, administrative, financial, and legal assistance to Montana's 58 conservation districts by administering the Conservation District Act, Montana Rangeland Resources Act, and the Natural Streambed and Land Preservation Act. The division also manages several loan and grant programs for local communities, local governments, state agencies, and private citizens. The programs include the State Revolving Fund, which currently includes \$150 million loaned to communities for water and waste water systems, Coal Severance Tax loans to governmental entities totaling \$45 million, and private loans for \$16.5 million. Grant programs administered by the division include the Reclamation Development, Renewable Resource, and Conservation District Grant programs.

Program Narrative

Conservation and Resource Development Division	
Major Program Highlights	
○	The legislature approved \$1.0 million over the biennium to address the Crow Tribe settlement
○	Funding was approved for administrative costs associated with regional water systems
○	Funding was eliminated from the Rangeland Resource Program. The legislature directed all program activities to stop until another funding source could be secured
○	2.00 FTE that are currently vacant were eliminated

Funding

The following table shows program funding, by source, for the base year and the 2005 biennium.

Program Funding Table						
Conservation/Resource Dev Div						
<u>Program Funding</u>	<u>Base</u>	<u>% of Base</u>	<u>Budget</u>	<u>% of Budget</u>	<u>Budget</u>	<u>% of Budget</u>
	<u>Fiscal 2002</u>	<u>Fiscal 2002</u>	<u>Fiscal 2004</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2005</u>
01100 General Fund	\$ 1,853,238	52.7%	\$ 2,283,648	51.0%	\$ 2,301,153	52.4%
02015 Tsep Regional Water Systems	-	-	360,793	8.1%	329,230	7.5%
02052 Rangeland Improvement Loans	21,558	0.6%	22,000	0.5%	22,000	0.5%
02270 Treasure State Endowment	26,000	0.7%	28,000	0.6%	26,000	0.6%
02272 Renewable Resources Grnt/Loans	316,579	9.0%	332,941	7.4%	326,397	7.4%
02316 Go94B/Ban 93D Admin	12,943	0.4%	15,093	0.3%	16,770	0.4%
02340 Coal Sev. Tax Shared Ssr	627,134	17.8%	627,134	14.0%	627,134	14.3%
02433 Grazing District Fees	28,043	0.8%	108,043	2.4%	28,043	0.6%
02458 Reclamation & Development	455,995	13.0%	500,000	11.2%	500,000	11.4%
03178 Res Dev & Cons - Fed	35,650	1.0%	35,650	0.8%	35,650	0.8%
03232 Drinking Water Srf Ffy 00	77,501	2.2%	90,000	2.0%	99,934	2.3%
03245 Wastewater Treatment Grant	64,557	1.8%	74,907	1.7%	83,230	1.9%
Grand Total	\$ 3,519,198	100.0%	\$ 4,478,209	100.0%	\$ 4,395,541	100.0%

This program is primarily funded with general fund, RIT accounts, and coal severance taxes.

RIT funding is used to administer the Reclamation Development Grants Program (RDGP) and the Renewable Resources Grant and Loan Program (RRGLP). The RDGP is a state-funded grant program that assists any department, agency, division of state government, tribal government, board, or commission to indemnify the people of the state for the effects of mineral development on public resources. The RRGLP funds a variety of natural resource projects including groundwater studies, irrigation projects, water and soil conservation, and public wastewater projects primarily through grants administered by the department. Coal severance tax is used to provide grants to conservation districts for natural resource related projects such as streambed stabilization, soil conservation, educational activities, and demonstrations of new technologies.

The Natural Resource Development Bureau utilizes nearly half of the division general fund to administer grant and loan programs, provide assistance to conservation districts for the administration of water reservations, and assist landowners to develop new irrigation. The programs include the Reclamation and Development, Renewable Resource, Treasure State Endowment, Conservation District Water Reservation, and Irrigation Development programs. The Conservation District Bureau utilizes just over half of the available general fund to assist Montana conservation and grazing districts. The programs include Conservation District Supervision, Watershed Efforts and Projects, Rolling Rivers Trailers, Rangeland Management, Grazing District Supervision, Natural Resource Conservation Education, Grants, and Salinity Control Programs. The remaining program funding includes miscellaneous state special revenue, federal drinking water and water pollution control funds, and miscellaneous federal sources used to supplement division activities.

Present Law Adjustments										
-----Fiscal 2004-----					-----Fiscal 2005-----					
	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services					158,547					161,645
Vacancy Savings					(47,760)					(47,884)
Inflation/Deflation					(7)					985
Fixed Costs					6,124					9,061
Total Statewide Present Law Adjustments					\$116,904	\$123,807				
DP 12 - Crow Tribe Settlement	0.00	500,000	0	0	500,000	0.00	500,000	0	0	500,000
DP 28 - Grass Conservation Commission	0.00	0	80,000	0	80,000	0.00	0	0	0	0
DP 7009 - Operating and Special Session Adjustments	0.50	(26,801)	4,093	22,406	(302)	0.50	(25,560)	3,770	24,020	2,230
Total Other Present Law Adjustments										
	0.50	\$473,199	\$84,093	\$22,406	\$579,698	0.50	\$474,440	\$3,770	\$24,020	\$502,230
Grand Total All Present Law Adjustments					\$696,602	\$626,037				

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 12 - Crow Tribe Settlement - The legislature approved a request for Crow Tribe settlement payments. The June 1999 Special Session of the Montana legislature approved the water rights and coal severance tax litigation settlement with the Crow Tribe. The state also authorized a "contribution to settlement" of \$15 million. "The State agrees to contribute the sum of \$15 million, in equal annual installments for a period of no more than 15 years beginning July 1, 1999, to a fund for the use and benefit of the Tribe." Pending final effectiveness of the compact, these funds are paid into escrow. Contract payments of \$500,000 were paid each year of the in the 2003 biennium. Per the escrow agreement, increasing the payments to \$1.0 million in fiscal 2004 and \$1.0 million fiscal 2005 for each year of the biennium will put the state in a better position to fund the agreement by the deadline date. This is a \$500,000 increase each year over the base expenditure amount.

DP 28 - Grass Conservation Commission - The legislature approved a biennial appropriation for contracted services, travel, communications, and supplies and materials associated with the vacant executive secretary position.

DP 7009 - Operating and Special Session Adjustments - The legislature approved a request to add 0.50 FTE and associated operating authority. In addition to the FTE, funding was added for increased rent, janitorial increases, other operations associated with increased workloads in the reclamation and development grants program.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 32 - Dry Red Water Regional Water System										
23	0.00	0	30,000	0	30,000	0.00	0	0	0	0
DP 202 - Eliminate 1.00 FTE Resource Specialist										
23	(1.00)	(52,596)	0	0	(52,596)	(1.00)	(52,595)	0	0	(52,595)
DP 301 - Eliminate Rangeland Resource Program Funding										
23	0.00	(33,000)	0	0	(33,000)	0.00	(33,000)	0	0	(33,000)
DP 302 - Sheridan County Conservation District										
23	0.00	30,000	0	0	30,000	0.00	30,000	0	0	30,000
DP 305 - Regional Water System Coordinator										
23	0.00	0	63,793	0	63,793	0.00	0	62,230	0	62,230
DP 306 - Northcentral Regional Water System										
23	0.00	0	135,000	0	135,000	0.00	0	135,000	0	135,000
DP 307 - Dry Prairie Rural Water System										
23	0.00	0	132,000	0	132,000	0.00	0	132,000	0	132,000
DP 6800 - HB 13 - Pay Plan										
23	0.00	4,083	1,939	0	6,022	0.00	17,284	8,117	0	25,401
DP 7020 - Reductions to Meet Target										
23	(1.00)	(48,810)	0	0	(48,810)	(1.00)	(48,730)	0	0	(48,730)
Total	(2.00)	(\$100,323)	\$362,732	\$0	\$262,409	(2.00)	(\$87,041)	\$337,347	\$0	\$250,306

New Proposals

DP 32 - Dry Red Water Regional Water System - The legislature approved funding for Dry Prairie regional water system administrative costs. Funding is from the treasure state endowment regional water fund.

DP 202 - Eliminate 1.00 FTE Resource Specialist - The legislature approved a request to eliminate a 1.00 FTE resource specialist position that provides technical assistance efforts to conservation districts in various areas such as project work, planning, and federal legislation. This position is currently vacant and any increased workload will be spread among other existing staff members.

DP 301 - Eliminate Rangeland Resource Program Funding - The legislature eliminated general fund in the Rangeland Resource Program. Further, the department was directed to stop all program activities until another funding source could be obtained.

DP 302 - Sheridan County Conservation District - The legislature approved funding for the Sheridan County Conservation District that will be used to provide water monitoring duties. Funding is restricted to this purpose.

DP 305 - Regional Water System Coordinator - The legislature approved funding of operations and modified FTE for a regional water system coordinator to serve the Dry Prairie and Northcentral Montana regional water system. This staff member coordinates state agency activities and their interaction with the two regional water systems. The regional water systems are very large construction projects and it is critical that the state provides a strong and coordinated effort to assist the people to be served by these systems. Funding is from the treasure state endowment regional water fund.

DP 306 - Northcentral Regional Water System - The legislature approved funding for Northcentral regional water system administrative costs. Funding is from the treasure state endowment regional water fund.

DP 307 - Dry Prairie Rural Water System - The legislature approved funding for Dry Prairie regional water system administrative costs. Funding is from the treasure state endowment regional water fund.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund the pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded.

DP 7020 - Reductions to Meet Target - The legislature approved a request to eliminate a 1.00 FTE agricultural engineering specialist position that designs irrigation systems. This position is currently vacant and any increased workload will be spread among other existing staff members.

Language

The legislature approved the following language:

"The department is appropriated up to \$600,000 for the 2005 biennium from the state special revenue account established in 85-1-604 for the purchase of prior liens on property held as loan security as required by 85-1-618."

"The department is authorized to decrease federal special revenue money in the pollution control and the drinking water revolving fund loan programs and to increase state special revenue money by a like amount within the special administration account when:

- 1) the amount of federal capitalization funds has been expended; or
- 2) federal funds and bond proceeds are designated for use for other program purposes."

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	109.50	0.00	0.00	109.50	0.00	0.00	109.50	109.50
Personal Services	4,892,576	555,663	(54,411)	5,393,828	562,336	35,716	5,490,628	10,884,456
Operating Expenses	1,817,530	2,266,533	253,733	4,337,796	(61,907)	262,911	2,018,534	6,356,330
Equipment	8,250	0	0	8,250	0	0	8,250	16,500
Capital Outlay	100	0	0	100	0	0	100	200
Grants	0	0	0	0	0	0	0	0
Debt Service	388,654	81,089	0	469,743	81,089	0	469,743	939,486
Total Costs	\$7,107,110	\$2,903,285	\$199,322	\$10,209,717	\$581,518	\$298,627	\$7,987,255	\$18,196,972
General Fund	6,029,101	450,534	(537,308)	5,942,327	504,931	(469,601)	6,064,431	12,006,758
State/Other Special	918,374	2,443,117	736,397	4,097,888	127,367	767,227	1,812,968	5,910,856
Federal Special	159,635	9,634	233	169,502	(50,780)	1,001	109,856	279,358
Total Funds	\$7,107,110	\$2,903,285	\$199,322	\$10,209,717	\$581,518	\$298,627	\$7,987,255	\$18,196,972

Program Description

The Water Resources Division is responsible for many programs associated with the uses, development, and protection of Montana's water. It manages and maintains the state-owned dams, reservoirs, and canals. The division also develops and recommends in-state, interstate, and international water policy to the director, Governor, and legislature. The division consists of an administration unit and four bureaus: Water Management Bureau, Water Rights Bureau, State Water Projects Bureau, and the Water Operations Bureau.

Program Narrative

Water Resources Division Major Program Highlights
<ul style="list-style-type: none"> ○ The legislature approved \$2.9 million in funding for repairs on state owned dams ○ The Flathead Basin Commission was temporarily transferred to the Water Resources Division ○ A number of fees associated with water rights activities will be increased through administrative rule. Corresponding funding switches were approved to reduce general fund ○ The general fund appropriation was designated as biennial in nature which will improve the department's ability to pay wildfire costs

Funding

The following table shows program funding, by source, for the base year and for the 2005 biennium.

Program Funding Table						
Water Resources Division						
Program Funding	Base	% of Base	Budget	% of Budget	Budget	% of Budget
	Fiscal 2002	Fiscal 2002	Fiscal 2004	Fiscal 2004	Fiscal 2005	Fiscal 2005
01100 General Fund	\$ 6,029,101	84.8%	\$ 5,942,327	58.2%	\$ 6,064,431	75.9%
02104 Miscellaneous State Spec Rev	232,244	3.3%	308,205	3.0%	308,205	3.9%
02145 Broadwater O & M	311,589	4.4%	352,364	3.5%	324,275	4.1%
02177 Cst 90 A Fisheries Mitigation	-	-	64,000	0.6%	-	-
02216 Water Storage St Sp Rev Acct	-	-	1,870,000	18.3%	-	-
02272 Renewable Resources Grnt/Loans	-	-	167,128	1.6%	174,494	2.2%
02351 Water Project Lands Lease Acct	1,850	0.0%	10,500	0.1%	10,500	0.1%
02409 General License	41,041	0.6%	65,149	0.6%	65,654	0.8%
02430 Water Right Appropriation	115,539	1.6%	687,771	6.7%	706,301	8.8%
02470 State Project Hydro Earnings	156,410	2.2%	511,538	5.0%	161,538	2.0%
02825 Water Well Contractors	59,701	0.8%	61,233	0.6%	62,001	0.8%
03034 Water Resources-Fed	23,000	0.3%	23,000	0.2%	23,000	0.3%
03094 State Assistance Program	112,596	1.6%	61,551	0.6%	62,319	0.8%
03280 Tongue River Fed	-	-	60,794	0.6%	-	-
03308 Water Resources - Federal	24,039	0.3%	24,157	0.2%	24,537	0.3%
Grand Total	\$ 7,107,110	100.0%	\$ 10,209,717	100.0%	\$ 7,987,255	100.0%

The Water Resources Division is funded primarily with general fund (66.0 percent), state special revenue (32.5 percent), and a minor amount of federal funds (1.5 percent). State special revenue funding is derived mainly from the water storage state special revenue account (receives a direct allocation of RIT interest), water rights fees, and earnings on state hydro power dams. Minor amounts of state special revenue include an appropriation from the general license account for fisheries mitigation and water well contractor fees used to support the activities of the Board of Well Water Contractors. Federal funding comes from a variety of federal entities such as the Bureau of Reclamation and the Bureau of Land Management and is used to provide assistance to local watershed groups. The bulk of the division's funding is used for a variety of state water projects including dam repair, dam safety, project management, lease administration, and watershed management.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				776,837					783,788
Vacancy Savings				(226,774)					(227,052)
Inflation/Deflation				33,468					45,861
Fixed Costs				192,563					218,513
Total Statewide Present Law Adjustments				\$776,094					\$821,110
DP 10 - WRD Operating Expense Adjustments									
0.00	(318,292)	86,689	0	(231,603)	0.00	(312,124)	86,689	0	(225,435)
DP 13 - State Water Project Rehabilitation									
0.00	0	2,220,000	60,794	2,280,794	0.00	0	0	0	0
DP 20 - Broadwater Hydropower Project Maintenance									
0.00	0	96,000	0	96,000	0.00	0	0	0	0
DP 7025 - Lease Vehicle Reduction									
0.00	(18,000)	0	0	(18,000)	0.00	(14,157)	0	0	(14,157)
Total Other Present Law Adjustments									
0.00	(\$336,292)	\$2,402,689	\$60,794	\$2,127,191	0.00	(\$326,281)	\$86,689	\$0	(\$239,592)
Grand Total All Present Law Adjustments				\$2,903,285					\$581,518

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 10 - WRD Operating Expense Adjustments - The legislature approved a request to fund overtime, per diem, and other adjustments for operating expense items throughout the division. Combined reductions reduce general fund by \$630,416.

DP 13 - State Water Project Rehabilitation - The legislature approved a request for a restricted, one-time, biennial appropriation request for rehabilitation and repairs associated with the Nevada Creek Dam, North Fork Smith River Dam, Nilan North Dam, Tongue River Dam and Broadwater Hydropower Dam.

DP 20 - Broadwater Hydropower Project Maintenance - The legislature approved a request for a biennial appropriation to fund fisheries mitigation work required by the FERC operating license and would be used for fisheries habitat evaluation, mitigation, and improvement at the Broadwater Hydropower Plant. Authority will be used to contract with the Department of Fish, Wildlife and Parks (FWP) to perform annual fish population studies and evaluate completed habitat improvement projects built to mitigate impacts from the construction of the power plant.

DP 7025 - Lease Vehicle Reduction - The legislature approved a request to reduce the division's lease vehicle fleet by four vehicles in the 2005 biennium resulting in a general fund reduction.

New Proposals										
Program	FTE	Fiscal 2004				Fiscal 2005				
		General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 19 - Water Rights Verification Project										
24	0.00	0	160,000	0	160,000	0.00	0	168,000	0	168,000
DP 203 - Increase Water Rights Fees by 100 Percent										
24	0.00	(224,000)	224,000	0	0	0.00	(224,000)	224,000	0	0
DP 204 - Water Rights Verification Project Fund Switch										
24	0.00	(160,000)	160,000	0	0	0.00	(168,000)	168,000	0	0
DP 303 - Eliminate Water Resource Education Funding										
24	0.00	(48,237)	0	0	(48,237)	0.00	(48,130)	0	0	(48,130)
DP 2401 - Transfer Flathead Basin Commission to DNRC										
24	1.00	0	166,825	0	166,825	1.00	0	173,195	0	173,195
DP 2402 - Yellowstone River Compact										
24	0.00	10,000	0	0	10,000	0.00	0	0	0	0
DP 6800 - HB 13 - Pay Plan										
24	0.00	24,525	2,572	233	27,330	0.00	105,309	11,032	1,001	117,342
DP 7002 - Applicants Pay Water Rights Notice Costs										
24	0.00	(23,000)	23,000	0	0	0.00	(23,000)	23,000	0	0
DP 7020 - Reduction to Meet Target										
24	(1.00)	(116,596)	0	0	(116,596)	(1.00)	(111,780)	0	0	(111,780)
Total	0.00	(\$537,308)	\$736,397	\$233	\$199,322	0.00	(\$469,601)	\$767,227	\$1,001	\$298,627

New Proposals

DP 19 - Water Rights Verification Project - The legislature approved a request for authority to add modified-level FTE to continue the verification of old water right permits. Temporary employees will be used to analyze completed questionnaires sent to water users, verifying that the permitted projects are completed and how much water they are actually using.

DP 203 - Increase Water Rights Fees by 100 Percent - The legislature approved a funding switch that would decrease general fund authority and increase state special revenue authority. Additional state special revenue authority would come from a 100 percent increase in water rights filing fees. ARM 36.12.103 will be changed to reflect the increase.

DP 204 - Water Rights Verification Project Fund Switch - The legislature approved a funding switch to reduce general fund and increase state special revenue for the water rights verification project.

DP 303 - Eliminate Water Resource Education Funding - The legislature eliminated funding for the Water Resource Education Program.

DP 2401 - Transfer Flathead Basin Commission to DNRC - The legislature approved SB 446 which transfers the Flathead Basin Commission to DNRC from the Governor's office for the 2005 biennium. This authority will fund 1.00 FTE and related operations expenses.

DP 2402 - Yellowstone River Compact - The legislature approved biennial funding restricted to investigating the apportionment of water between Montana and Wyoming under the Yellowstone River Compact as referenced in House Joint Resolution 35. HJR 35 requests an interim study regarding Montana's share of water from interstate tributaries named in the Yellowstone River Compact.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund the pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded.

DP 7002 - Applicants Pay Water Rights Notice Costs - The legislature approved a request to require applicants for water rights to pay public notice costs for their applications. If approved, general fund would be replaced with state special authority of \$46,000 over the biennium.

DP 7020 - Reduction to Meet Target - The legislature approved a request to eliminate a 1.00 FTE civil engineering specialist position. Adjustments have been made in the Water Rights Bureau, Regional Offices and Water Projects Bureau that reflect the elimination of 1.00 FTE. Although this FTE is currently occupied, the department has indicated that the incumbent will be offered another position.

Language

The legislature approved the following language:

"Item [Water Resources Division, Yellowstone River Compact Water Apportionment] contains general fund authority of \$10,000 in fiscal year 2004 that is restricted to investigate the apportionment of water between Montana and Wyoming under the Yellowstone River Compact as referenced in House Joint Resolution No. 35."

"During the 2005 biennium, up to \$1 million of funds currently in or to be deposited in the Broadwater replacement and renewal account is appropriated to the department for repairing or replacing equipment at the Broadwater hydropower facility."

"During the 2005 biennium, up to \$70,000 of interest earned on the Broadwater water users account is appropriated to the department for the purpose of repair, improvement, or rehabilitation of the Broadwater-Missouri diversion project."

"During the 2005 biennium, up to \$500,000 of funds currently in or to be deposited in the state project hydropower earnings account is appropriated for the purpose of repairing, improving, or rehabilitating department state water projects."

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	11.00	0.00	(1.00)	10.00	0.00	(1.00)	10.00	10.00
Personal Services	565,772	37,270	(24,344)	578,698	42,139	(16,615)	591,296	1,169,994
Operating Expenses	149,210	(300)	(11,449)	137,461	288	(11,447)	138,051	275,512
Equipment	0	0	0	0	0	0	0	0
Total Costs	\$714,982	\$36,970	(\$35,793)	\$716,159	\$42,427	(\$28,062)	\$729,347	\$1,445,506
General Fund	714,982	36,970	(35,793)	716,159	42,427	(28,062)	729,347	1,445,506
State/Other Special	0	0	0	0	0	0	0	0
Total Funds	\$714,982	\$36,970	(\$35,793)	\$716,159	\$42,427	(\$28,062)	\$729,347	\$1,445,506

Program Description

The Reserved Water Rights Compact Commission was created by the legislature in 1979 as part of the water rights adjudication effort. It consists of four members appointed by the Governor, two by the President of the Senate, two by the Speaker of the House of Representatives, and one by the Attorney General. Members serve for four years. The commission negotiates water rights with the Indian tribes and federal agencies, which claim federal reserved water rights within the state, to establish a formal agreement (compact) on the amount of water to be allocated to each interest.

Program Narrative

Reserved Water Rights Compact Commission	
Major Program Highlights	
○	The legislature eliminated a vacant 1.0 FTE administrative support position

Funding

The Reserved Water Rights Compact Commission is funded entirely with general fund.

Present Law Adjustments									
-----Fiscal 2004-----					-----Fiscal 2005-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
Personal Services				62,398					67,468
Vacancy Savings				(25,128)					(25,329)
Inflation/Deflation				873					1,049
Fixed Costs				(1,173)					(761)
Total Statewide Present Law Adjustments				\$36,970					\$42,427
Grand Total All Present Law Adjustments				\$36,970					\$42,427

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

New Proposals										
-----Fiscal 2004-----						-----Fiscal 2005-----				
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds
DP 205 - Eliminate 1.00 FTE Administrative Support										
25	(1.00)	(38,112)	0	0	(38,112)	(1.00)	(38,065)	0	0	(38,065)
DP 6800 - HB 13 - Pay Plan										
25	0.00	2,319	0	0	2,319	0.00	10,003	0	0	10,003
Total	(1.00)	(\$35,793)	\$0	\$0	(\$35,793)	(1.00)	(\$28,062)	\$0	\$0	(\$28,062)

New Proposals

DP 205 - Eliminate 1.00 FTE Administrative Support - The legislature eliminated 1.00 FTE administrative support position and related operations costs. This is a vacant position and any increase in workload will be distributed to other existing staff members.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund the pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded.

Program Legislative Budget								
Budget Item	Base Budget Fiscal 2002	PL Base Adjustment Fiscal 2004	New Proposals Fiscal 2004	Total Leg. Budget Fiscal 2004	PL Base Adjustment Fiscal 2005	New Proposals Fiscal 2005	Total Leg. Budget Fiscal 2005	Total Leg. Budget Fiscal 04-05
FTE	291.36	0.00	(2.60)	288.76	0.00	(2.60)	288.76	288.76
Personal Services	10,764,915	1,902,403	(64,362)	12,602,956	1,918,907	214,862	12,898,684	25,501,640
Operating Expenses	5,938,011	201,750	313,160	6,452,921	252,534	148,494	6,339,039	12,791,960
Equipment	700,346	(37,190)	0	663,156	(37,240)	0	663,106	1,326,262
Capital Outlay	354	0	0	354	0	0	354	708
Grants	0	0	0	0	0	0	0	0
Transfers	389,169	9,170	0	398,339	9,170	0	398,339	796,678
Debt Service	114,394	0	0	114,394	0	0	114,394	228,788
Total Costs	\$17,907,189	\$2,076,133	\$248,798	\$20,232,120	\$2,143,371	\$363,356	\$20,413,916	\$40,646,036
General Fund	5,906,892	790,789	(241,024)	6,456,657	808,773	(161,779)	6,553,886	13,010,543
State/Other Special	10,863,292	1,049,883	398,319	12,311,494	1,095,550	417,828	12,376,670	24,688,164
Federal Special	1,137,005	235,461	91,503	1,463,969	239,048	107,307	1,483,360	2,947,329
Total Funds	\$17,907,189	\$2,076,133	\$248,798	\$20,232,120	\$2,143,371	\$363,356	\$20,413,916	\$40,646,036

Program Description

The Forestry Division is responsible for planning and implementing forestry programs statewide. Forestry responsibilities include protecting Montana's natural resources from wildfire, regulating forest practices, and providing a variety of services to private forest landowners. Specific programs include:

- Fire and Aviation Management - Protecting 50 million acres of state and private forest and watershed lands from wildfire through a combination of direct protection and county support
- Forest Practice Regulation - Enforcing Montana's streamside management zone regulations and monitoring the voluntary best management practices program on all forests in Montana
- Administering Montana's Fire Hazard Reduction Law - Ensuring that the fire hazard created by logging and other forest management operations on private forest lands is reduced, or that additional fire protection is provided until the hazard is reduced
- Providing Forestry Services - Providing technical forestry assistance to private landowners, businesses, and communities
- Tree and Shrub Nursery - Growing and selling seedlings for conservation and reforestation plantings on state and private lands in Montana

Trust Lands Management

The Trust Land Management Division provides for the administration and management of trust lands granted to the State of Montana by the Enabling Act of 1889. These lands currently total 5.2 million surface acres and 6.2 million mineral acres. Additionally, the division is responsible for the administration of approximately 6,000 miles (40,000+ acres) of beds of navigable waterways. The Trust Land Management Division is divided into four primary programs: forest management, agriculture and grazing management, special use management, and minerals management.

Program Narrative

Forestry Division Major Program Highlights	
○	The legislature approved authority for a temporary pay exception for firefighters
○	Funding for 1.55 FTE eliminated during the 2001 legislative session was restored
○	A funding switch was approved that allowed the department to utilize

\$173,150 federal funds in lieu of general fund

- The legislature approved a request to eliminate a portion of the State/County Cooperative Fire Protection Program along with 4.15 FTE. No loss of fire suppression efforts is anticipated
- The general fund appropriation was designated as biennial in nature which will improve the department's ability to pay wildfire costs
- The legislature added \$0.3 million to conduct a market evaluation of the coal reserves at Otter Creek as required by SB 409

Funding

The following table shows program funding, by source, for the base year and the 2005 biennium.

Program Funding Table						
Forestry Division						
<u>Program Funding</u>	<u>Base</u>	<u>% of Base</u>	<u>Budget</u>	<u>% of Budget</u>	<u>Budget</u>	<u>% of Budget</u>
	<u>Fiscal 2002</u>	<u>Fiscal 2002</u>	<u>Fiscal 2004</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2005</u>
01100 General Fund	\$ 5,906,892	33.0%	\$ 6,456,657	31.9%	\$ 6,553,886	32.1%
02031 Forest Resources - Nursery	363,409	2.0%	390,858	1.9%	403,095	2.0%
02039 Forestry-Fire Protection Taxes	2,200,091	12.3%	2,500,004	12.4%	2,552,964	12.5%
02073 Forestry - Slash Disposal	96,944	0.5%	109,057	0.5%	111,573	0.5%
02241 Dsl Recreational Use Acocunt	47,552	0.3%	75,028	0.4%	97,217	0.5%
02280 Forest Resources-Timber Sales	2,021,135	11.3%	2,938,346	14.5%	2,947,997	14.4%
02449 Forest Resources-Forest Improv	1,788,198	10.0%	1,726,550	8.5%	1,740,533	8.5%
02450 State Lands Res Dev	534,109	3.0%	596,857	3.0%	605,874	3.0%
02681 Historic Right-Of-Way Acct	-	-	5,000	0.0%	5,000	0.0%
02938 Trust Fund Revenues	3,811,854	21.3%	3,969,794	19.6%	3,912,417	19.2%
03068 Forest Resources-Fire	714,917	4.0%	912,062	4.5%	922,559	4.5%
03069 Forest Resources - Pfa	422,088	2.4%	551,907	2.7%	560,801	2.7%
Grand Total	\$ 17,907,189	100.0%	\$ 20,232,120	100.0%	\$ 20,413,916	100.0%

Forestry Division

The Forestry Division contains six programs funded with general fund, state special revenue, and federal funds. General fund, as a part of the funding for the Air Operations Bureau, is transferred to and spent from the bureau's proprietary fund account for fixed costs. Although the legislature no longer appropriates proprietary funds, it does set the hourly rates charged for use of department aircraft. Revenue from this charge is deposited in the proprietary account.

State special revenue generated from the sale of nursery stock and forest improvement fees is used to fund the nursery program. The Land Board approves the variable forest improvement fee when timber sales are approved based on the state's expected costs of slash disposal, road access and maintenance, and reforestation. Landowner fire protection taxes are paid by private forest landowners for wildfire protection. The department is required by statute to collect up to one-third of the state's fire protection appropriation from private landowners (Section 76-13-207, MCA). The other two-thirds is funded with general fund and federal funds. The department is required to set the tax so that collections equal the amount appropriated by the legislature. Other state special revenues include money from the sale of nursery stock and slash removal assessments on private landowners who cut timber. Fees of \$25 for each slash hazard reduction agreement and \$0.60 per thousand board feet sold, plus forfeited fire hazard reduction bonds, are collected for use by the department.

Federal funds finance a portion of the fire protection, other services, and service forestry programs. Historically, funds reimbursed by federal agencies to the state for the state's wildfire costs are appropriated at \$350,000 federal funds each year from the general fund. A legal opinion issued by Greg Petesch, Code Commissioner of the State of Montana, indicated that practice was incorrect. According to the opinion, because the reimbursable funds come from the federal government, the deposit should be made to a federal special revenue fund. Although spending for fire costs will likely take place from the general fund, the reimbursement will be required to go to a federal special revenue fund.

Trust Lands Management

The Trust Lands Division is primarily funded with trust fund revenue, timber sales, and forest resources fees. The remaining funding is made up of recreational use and state lands resource development. General fund is used primarily to fund salaries for support staff.

Present Law Adjustments										
-----Fiscal 2004-----						-----Fiscal 2005-----				
FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
Personal Services				2,221,685					2,238,874	
Vacancy Savings				(519,282)					(519,967)	
Inflation/Deflation				33,871					64,612	
Fixed Costs				35,634					54,753	
Total Statewide Present Law Adjustments				\$1,771,908	\$1,838,272					
DP 11 - Fire Seasonal Pay Exception										
0.00	0	66,000	134,000	200,000	0.00	0	66,000	134,000	200,000	
DP 21 - Federal Fire Reimbursement										
0.00	0	0	112,964	112,964	0.00	0	0	112,854	112,854	
DP 7004 - Forestry Operating and Special Session Adjustment										
0.00	0	(8,739)	0	(8,739)	0.00	0	(7,755)	0	(7,755)	
Total Other Present Law Adjustments										
0.00	\$0	\$57,261	\$246,964	\$304,225	0.00	\$0	\$58,245	\$246,854	\$305,099	
Grand Total All Present Law Adjustments				\$2,076,133	\$2,143,371					

Present Law Adjustments

The "Present Law Adjustments" table shows the primary changes to the adjusted base budget made by the legislature. "Statewide Present Law" adjustments are standard categories of adjustments made to all agencies. Legislative decisions on these items were applied globally to all agencies. The other numbered adjustments in the table correspond to the narrative descriptions.

DP 11 - Fire Seasonal Pay Exception - The legislature approved one-time authority for a temporary pay exception for Department of Natural Resources and Conservation (DNRC) firefighters. This funding grants a pay increase of 20 percent for seasonal firefighters to make a pay matrix similar to that of surrounding states (Idaho Department of Lands and Oregon Department of Forestry) with similar programs.

DP 21 - Federal Fire Reimbursement - The legislature approved a request for authority to expend federal dollars received in support of federal fire suppression activities. These funds are referred to as the "federal fire reimbursement" and are received from federal agencies and other states for the use of Department of Natural Resources & Conservation (DNRC) personnel and equipment. DNRC provides assistance to these other entities in managing emergency incidents, such as fire suppression activities. Only those funds received as reimbursement of personnel expenses (up to \$100,000) credited against the operational budget of the fire program or those funds received as payment under equipment use agreements (up to \$250,000) are considered federal fire reimbursement funds.

DP 7004 - Forestry Operating and Special Session Adjustment - The legislature approved a request for authority to increase operations costs and targeted reductions. Funding is provided for increases in rent, utilities, communications, janitorial services, fire training through the Northern Rockies Training Center, and the relocation of an interagency dispatch center. In addition, the Bureau of Indian Affairs, Flathead Agency is raising the fee for providing fire protection on 147,609 acres of state and private lands within the reservation by \$0.04 per acre. The total increase per year is \$5,905 and will be ongoing.

The Forestry Division also eliminated a portion of the State/County Cooperative Fire Protection Program. The counties affected would be: Missoula, Mineral, Granite, Powell, Sanders, Lincoln, Lake, Ravalli, Flathead, Deer Lodge, and Silver Bow. This will result in a general fund savings of \$159,037. However, 76-13-207, MCA, requires that no greater than one-third of the fire appropriation comes from landowner assessments. Thus, the division would also be required to reduce state special revenue funding. The net affect of the adjustments is a decrease to state special revenue funds.

New Proposals											
-----Fiscal 2004-----						-----Fiscal 2005-----					
Program	FTE	General Fund	State Special	Federal Special	Total Funds	FTE	General Fund	State Special	Federal Special	Total Funds	
DP 14 - Forestry Seasonal FTE	35	1.55	0	25,570	0	25,570	1.55	0	25,535	0	25,535
DP 206 - Fire and Aviation Operations Reduction	35	0.00	(4,032)	0	0	(4,032)	0.00	(4,032)	0	0	(4,032)
DP 3501 - SB 409 -- Develop Otter Creek Tracts	35	0.00	0	300,000	0	300,000	0.00	0	0	0	0
DP 3502 -- HB 537 -- Sustainable Yield	35	0.00	0	40,000	0	40,000	0.00	0	0	0	0
DP 3503 - State Land Bank	35	0.00	0	0	0	0	0.00	0	153,600	0	153,600
DP 3504 - General Recreation Use of School Trust Lands	35	0.00	0	21,734	0	21,734	0.00	0	43,468	0	43,468
DP 6800 -- HB 13 - Pay Plan	35	0.00	24,546	56,725	4,928	86,199	0.00	103,758	240,918	20,732	365,408
DP 7001 - Fund switch for forest practices programs	35	0.00	(86,575)	0	86,575	0	0.00	(86,575)	0	86,575	0
DP 7020 - Reductions to meet target	35	(4.15)	(174,963)	(45,710)	0	(220,673)	(4.15)	(174,930)	(45,693)	0	(220,623)
Total	(2.60)	(\$241,024)	\$398,319	\$91,503	\$248,798	(2.60)	(\$161,779)	\$417,828	\$107,307	\$363,356	

New Proposals

DP 14 - Forestry Seasonal FTE - The legislature approved state special revenue funds to restore 1.55 FTE eliminated by the 2001 legislature. These positions were seasonal positions eliminated by the 2001 legislature.

DP 206 - Fire and Aviation Operations Reduction - The legislature approved a reduction within the Fire and Aviation Bureau for supplies, contracted services, and travel.

DP 3501 - SB 409 -- Develop Otter Creek Tracts - The legislature approved a biennial, one-time appropriation to implement SB 409. SB 409 allows the department to contract for archaeological survey, coal resource, and leasehold market evaluation for the development of coal reserves in the Otter Creek tracts. All of the coal tracts belong to the common school trust, which will receive the revenue from the sale of the coal.

DP 3502 - HB 537 -- Sustainable Yield - The legislature approved biennial, one-time authority in fiscal 2004 to the Department of Natural Resources and Conservation to implement HB 557. This bill requires a study to recalculate the annual sustainable yield on forested state lands.

DP 3503 - State Land Bank - The legislature approved authority in fiscal 2005 to implement SB 223. SB 223 establishes a state land bank operation in the department.

DP 3504 - General Recreation Use of School Trust Lands - The legislature approved a request for budget authority to enter into a 10 year memorandum of understanding (MOU) with the Department of Fish, Wildlife and Parks that would provide compensation to the school trust for the value of recreational use of school trust lands by hunters and anglers. The authority will be used to address increased operations costs associated with managing the land for recreation purposes. This decision is the result of a request by the Board of Land Commissioners that FWP and DNRC develop an alternative to the current method of compensating the School Trust for general recreational use through the purchase of a general recreational use stamp. This authority is contingent upon Land Board approval.

DP 6800 - HB 13 - Pay Plan - The legislature passed a pay plan in HB 13 that provides an additional \$44 per month in insurance contributions in calendar 2004 and an additional \$50 per month in calendar 2005, as well as a \$0.25 per hour salary increase in the final six months of fiscal 2005. These amounts represent this program's allocation of costs to fund the pay plan. An additional \$44 per month in insurance contribution for the first six months of fiscal 2004 was not funded.

DP 7001 - Fund Switch for Forest Practices Programs - The legislature approved a request for a funding switch. Service foresters working in forest practices programs and slash hazard reduction programs are primarily funded with general fund. However, the division has recently received additional federal funds and it is likely that these federal funds can be used to fund personal services. Funding is switched from general fund to federal funds.

DP 7020 - Reductions to Meet Target - The legislature approved a request to eliminate a portion of the State/County Cooperative Fire Protection Program and 4.15 FTE. The counties affected would be: Missoula, Mineral, Granite, Powell, Sanders, Lincoln, Lake, Ravalli, Flathead, Deer Lodge, and Silver Bow. This will result in a general fund savings of \$159,037. However, 76-13-207, MCA, requires that no greater than one-third of the fire appropriation comes from landowner assessments. Thus, the legislature also reduced state special revenue funding.

Language

The legislature approved the following language to be included in HB2:

"If Senate Bill No. 130 is not passed and approved, item [Forestry and Trust Lands] is decreased by \$21,734 of state special revenue in fiscal year 2004 and by \$43,468 of state special revenue in fiscal year 2005."

"During the 2005 biennium, up to \$70,000 in state special revenue of annual rent received from commercial leasing is appropriated to the department to contract with realtors, property managers, surveyors, legal counsel, or lease administrators to administer the commercial lease, either singly or in common with other leases, or to provide assistance to the department in the administration of commercial leases pursuant to [section 5] of Senate Bill No. 137."

"The department shall present a written quarterly report to the office of budget and program planning and to the legislative fiscal division detailing its fire costs for the current fiscal year. In addition, it shall present this information to the legislative finance committee upon request."

Proprietary Rates

Program Description

The Air Operations Program in the Forestry Division is funded from the air operations proprietary account for those costs that can be supported by the aircraft rates charged to agencies that use the aircraft and general fund for fixed costs. The program operates three medium helicopters, two light helicopters, and three single engine fixed-wing airplanes. Aircraft are primarily used for fire detection, support and suppression of wildfires, and reclamation work in the Department of Environmental Quality. Fixed costs are paid by the general fund and fire protection tax revenue since they must be paid regardless of number of hours flown. These costs include hangar rent, insurance, and personnel costs. The general fund and fire protection taxes are appropriated by the legislature and transferred to and spent from the proprietary account. Variable costs that are dependent on the hours flown, such as fuel and maintenance, are recovered through an hourly rate charged to all users of the aircraft. Users of the aircraft include DNRC, other state agencies, federal agencies, and the state's wildfire suppression efforts. This revenue is also deposited to the proprietary account.

Revenues and Expenses

The cost drivers for the aircraft rates are the actual expenses needed to maintain the aircraft in an air-worthy condition and remain mission ready for the primary purpose of the initial attacking of wild fires on state and federal ground. This includes all costs associated with the operation and maintenance of that aircraft. There are some factors that contribute to the uncertainty in forecasting future expenses. This includes unforeseen events such as FAA and manufacturer directives, aircraft incidents resulting in unplanned maintenance, and fluctuations in fuel and parts.

Rate Explanation

The reimbursement rates for the operation of the department aircraft are based on the time-life of 5000 hours of aircraft usage determined to maintain the aircraft in its original condition. At the end of 5000 hours, all parts should have been replaced and a new maintenance and operation cycle started. The customer base is very specific and is made up of DNRC land managers and the U.S. Forest Service. The aviation section provides aircraft for fire operations. The aviation section uses this reimbursement rate strictly to maintain the aircraft in flyable condition. Due to the high price of aircraft parts, the department maintains a high fund balance.

In addition, the FAA and the manufacturer can issue service and technical bulletins that mandate compliance to continue operation of that aircraft. Customers are billed at the fixed rate based on the amount of hours and tenths of hours flown. All costs are direct and fixed with no indirect costs associated with these rates.

Rates

Bell UH-1H	\$875.00 per hour
Bell Jet Ranger	\$375.00 per hour
Cessna 180 series	\$ 95.00 per hour

The legislature did not approve a rate increase for the 2005 biennium.